

ASX/Media Announcement

27 September 2018

Update on corporate activity

ESR proposal to acquire Propertylink

Propertylink Group (ASX:PLG) (**Propertylink**) has held initial discussions with ESR Real Estate (Australia) Pty Ltd (**ESR**) regarding its indicative, non-binding and conditional proposal to acquire Propertylink (**ESR Proposal**).

Propertylink continues to assess the merits of the ESR Proposal and will update the market with its findings in due course. Propertylink securityholders are advised to take no action in relation to the ESR Proposal at this time.

Independent valuations

In light of the ESR Proposal, the Propertylink Board has deemed it prudent to commission independent valuations for 100% of Propertylink's wholly owned industrial portfolio and on assets held in external funds in order to assess Propertylink's co-investment positions. Propertylink will advise securityholders of the result of the independent valuation process in due course.

The CIP Proposal

Propertylink continues to strongly believe that, as previously stated, its indicative, non-binding and conditional proposal to acquire Centuria Industrial REIT (ASX:CIP) (the **CIP Proposal**) announced on 13 September 2018 would provide significant benefits to both CIP unitholders and Propertylink securityholders.

The announcement of the CIP Proposal was a public proposal to make a takeover bid for the purposes of section 631 of the Corporations Act. Accordingly, despite the condition of the ESR Proposal that the CIP Proposal does not proceed, section 631 of the Corporations Act requires Propertylink to continue with the CIP Proposal on the terms, and subject to the conditions, set out in its announcement and the attached letter, except in certain limited circumstances. Those limited circumstances include the non-satisfaction of the pre-conditions specified in the CIP Proposal – being:

- Granting of a 7 day exclusivity period to conduct confirmatory due diligence on CIP, including the provision of the essential due diligence items list provided together with the CIP Proposal;
- The Propertylink board being satisfied with the outcome of confirmatory due diligence on CIP;
- The Independent Directors of CIP unanimously recommending the CIP Proposal; and
- Centuria Property Funds No. 2 Limited (**CPF2L**) as responsible entity of CIP, entering into a Bid Implementation Agreement.

Propertylink has reserved its right to proceed with a takeover bid for CIP even if the pre-conditions are not satisfied.

In addition, any takeover bid would be subject to the conditions set out in Annexure 1 of the letter attached to the Propertylink announcement of 13 September 2018.

CIP IBC request for information

On 19 September 2018, CPF2L, as responsible entity of CIP, announced that it had formed an Independent Board Committee (**CIP IBC**) to assess the CIP Proposal, and attached a list of questions sent by the CIP IBC to Propertylink.

Propertylink has provided responses to the questions provided and looks forward to continuing to engage with the CIP IBC to further the CIP Proposal.

Clarifications relating to the CIP Proposal

A number of public statements have been made in relation to the CIP Proposal which contain certain factual inaccuracies and / or require further clarification. Propertylink notes the following in relation to these:

- **Pro forma Propertylink gearing:** Propertylink's pro forma gearing is expected to be within its target gearing range of 30% – 40% on completion of the CIP Proposal. Any deviations from this range during the process to acquire CIP would be temporary and would not represent Propertylink's stabilised gearing levels.

The CIP Proposal includes the planned sale of three assets in the case of Propertylink acquiring 100% of CIP and two assets in the case of Propertylink acquiring 50.1% of CIP. The assets currently identified for sale are all wholly owned by Propertylink and are envisaged to be sold to Propertylink managed funds, or alternatively third parties. As the assets assumed to be sold are Propertylink assets, Propertylink has control over execution of the intended asset sales at all times and is highly confident in its ability to execute the asset sales at attractive pricing levels.

The table below clarifies Propertylink's expected potential pro forma gearing position assuming various milestones outlined in the CIP Proposal are achieved. In addition, Propertylink sees additional value in its own and CIP's portfolios which would further reduce pro forma gearing of the merged group.

	30-Jun-18 ¹	Pre-bid stake ²	CIP transaction ³	
			100% acquired	50.1% acquired
Balance sheet gearing	30.6%	39.4%	40.1%	39.7%
Look-through gearing	35.7%	47.1%	42.4%	42.0%

¹ As at 30 June 2018 adjusted for the settlement of Orion Road (\$8.6m).

² Adjusted for acquisition of an 18.1% stake in CIP (44,926,660 units) at a weighted average cost of \$2.99 per unit (\$134.2m). Look-through gearing adjusted to reflect Propertylink's 18.1% interest in CIP. CIP balance sheet as at 30-Jun-2018 adjusted for acquisition of Boundary Street Richlands (\$15.9m), sale of Wedgewood Drive Hallam (\$10.0) and the divestment of its PLG stake (\$46.3m).

³ Assumes \$157m of asset sales if 100% of CIP is acquired and \$75m of asset sales if 50.1% of CIP is acquired.

- **Premium paid to CIP NTA:** Propertylink sees value in the CIP portfolio above and beyond the carrying value of its assets as at 30 June 2018. The key drivers of this expected value upside include:
 - Propertylink’s internal view on the current market value of CIP’s portfolio having regard to recent comparable direct market transactional evidence
 - Propertylink’s view on additional value that can be created through Propertylink’s more active approach to asset management – Propertylink notes that CIP’s NTA per unit growth since December 2016 has been 8.5% compared to Propertylink’s NTA per security growth of 27.0%
 - Latent operating leverage / scalability of the Propertylink platform which is expected to deliver substantial cost synergies compared to CIP’s current management fee structure
 - Potential listed market transaction efficiencies (i.e. stamp duty)

- **Incremental cost to manage CIP:** Propertylink’s internal and integrated management platform has been positioned to grow and is highly scalable, with capacity to significantly grow assets under management utilising its existing cost base.

Propertylink manages a portfolio of 47 industrial assets across Australia with significant geographic overlap with the CIP portfolio. Propertylink has undertaken an extensive analysis of the incremental costs it would expect to incur in bringing the CIP portfolio onto the Propertylink management platform. These costs are estimated to be \$2.2 million p.a. as detailed in the table below.

Type of cost	Cost (\$m)	Comment
Employee costs	Up to 1.1	Additional staff
Insurance	0.4	Additional directors and officers insurance
Custodian fees	0.2	Third party custodian services on arm's length terms
Other costs	0.5	Includes travel, audit, share registry, ASX and legal costs
Total	2.2	

Due to its internal and integrated management platform, Propertylink also estimates it will be able to recover approximately \$1.7m p.a. of property management fees which would no longer be paid third parties. This amount will partly offset the estimated incremental cost to manage the CIP portfolio outlined above and further demonstrating the operating leverage of Propertylink’s management platform.

- **Performance of Propertylink’s investment management business:** Propertylink measures the performance of its investment management business by the returns it delivers to its investors, not simply aggregating and growing assets under management. Propertylink is aligned with the interests of external investors in its external funds via its meaningful co-investments stakes and the ability to generate performance fees.

Propertylink's disciplined approach has seen Propertylink deliver average total returns of 25% across its investment management platform since inception.⁴ The table below highlights the realised returns on assets divested to date, demonstrating Propertylink's ability to leverage its platform and expertise to deliver superior returns, and the potential for value creation through its co-investments and performance fees.

Divestments	Settlement	Sale Price	Total Return	Co-investment	Performance Fee
PEP – 80 Mount Street, North Sydney	Nov-18	\$71m	58%	25.0%	N/A
POP II – 1 office asset	Jul-17	\$275m	38%	5.0%	\$17.5m
Confidential Mandate – 1 industrial asset	Jul-17	\$51m	25%	10.0%	\$1.3m
POP I – 1 office asset	Dec-17	\$150m	15%	5.0%	\$3.5m
PALT – 2 industrial assets	Feb-17	\$73m	15%	10.0%	N/A
PEP – 1 office asset	Apr-17	\$14m	104%	25.0%	N/A ⁵

Over the past 12 months, Propertylink has established three new wholesale funds supported by high quality global institutional investors providing Propertylink combined investment capacity of approximately \$1.0 billion, underpinning future growth in the investment management business.

- **Propertylink FY19 EPS accretion:** Propertylink notes that the CIP Proposal is now expected to generate 4.3% accretion to Propertylink's FY19 EPS and DPS on a pro forma basis assuming an acquisition of 100% of CIP's units⁶.

Update on CNI requisition of meeting

Propertylink's directors note that on 20 September 2018, Centuria Capital Group (ASX:CNI) requested that Propertylink (Holdings) Limited's (PHL) directors call a meeting to consider CNI's proposed resolutions to replace PHL's board, other than the managing director, with nominees of CNI.

In the Propertylink directors' view, it is unlikely that CNI would have requisitioned this meeting and proposed to replace existing PHL directors if Propertylink had not announced the CIP Proposal, which, if implemented, would lead to CNI no longer receiving management fees from CIP.

The Propertylink directors do not believe that it is in the best interests of Propertylink securityholders to support CNI's proposed resolutions. Nevertheless, your directors welcome discourse with securityholders about the future direction and strategy of Propertylink.

⁴ Equity weighted average total return since fund inception as at 30 June 2018 for the Propertylink Group's active and realised external funds, excluding the Propertylink Australian Commercial Trust which was in its acquisition phase during FY18.

⁵ The performance fee for PEP is payable on the sale of the last asset from the fund. The performance of this asset and 80 Mount St will contribute to overall fund performance and any performance fee ultimately payable.

⁶ Based on Propertylink's increased relevant interest of 18.1% in CIP since the time of announcement on 13 September 2018.

Propertylink is preparing a notice of meeting calling the requisitioned general meeting. The notice of meeting will set out your directors' voting recommendations together with information material to assist securityholders' with their decision.

ENDS

Further Enquiries

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About Propertylink

Propertylink is an A-REIT, listed on the Australian Stock Exchange under the code "PLG". Propertylink is an internally managed real estate group that owns and manages a diversified portfolio of logistics, business park and office properties and is a leading investment and asset management business with over A\$1.8 billion of assets under management. Propertylink's integrated, in-house approach to active asset management is aimed at maximising the performance and value of assets under management for our global investors from North America, Europe, the Middle East, Asia and Australia.